Mike Washington: US consumer confidence just took a massive hit. Is the American consumer in trouble?

I'm Mike Washington, an equity sales trader in Goldman Sachs Global Banking & Markets, and I'm joined by my colleague Scott Feiler, our consumer sector specialist. Scott, welcome, it's great to have you.

Scott Feiler: Thanks for having me, Mike.

Mike Washington: So, Scott, this week we got consumer confidence data that didn't exactly show consumer confidence. The index had its biggest one month decline since 2021. What do you make of the print?

Scott Feiler: Yeah, Mike, it was a big drop month over month. But it really is just to the levels we were trending at all summer. So, I would call it pretty steady. I'd also note that consumer confidence readings can do weird things ahead of election cycles. If you look back to the readings in August and September of 2020, they also saw a huge drop in August and September before seeing a substantial rebound around October and November.

Lastly, our GS conference was the first week of September with many of the biggest corporates in the world. And they all spoke to rebounding trends in August and September. Corporate tone on consumer spend just doesn't really jive with the steep decline in consumer confidence.

Mike Washington: When I think about the consumer, I've actually been a bit more cautious. And I feel like generalists and macro folks that I speak to share that same view. But you're obviously someone that follows the consumer space extremely closely. Are we off in our thinking? Where are you at in defining, let's call it, the health of the consumer?

Scott Feiler: Yeah, the way I'm thinking about it is the consumer is neither so great that we're in a rising tide lifts all boats scenario, nor is the consumer so stretched that we're seeing a coordinated slow down across categories. Some end markets are doing amazing. And some are doing poorly. Some companies are doing the best they've ever done. While some are struggling.

From a macro lens, while job gains have slowed, we are still at full employment and have a million more job openings available than job seekers looking for them. Gasoline prices are at seven-month lows. And those two things are what ultimately normally drives consumer confidence over time.

I would argue the consumer is currently in a more discerning state, but is still in an okay position and is still showing up to spend.

Mike Washington: You mentioned our premier retailing conference. One of the biggest takeaways that I had from the conference was the divergence between high income earners and low-income earners. What's your take on this? And is that a theme that you're having in conversations with investors?

Scott Feiler: Yeah, the weakness in the low-income consumer cohort was the biggest focus for investors when inflation was the biggest issue for the market last year. As interest rates have begun to come down, as gas prices have begun to come down, as inflation has begun to come down, we picked up less bearishness on this trade from investors. Where we're actually hearing more people focus now is on that middle income cohort. The middle-income cohort is the cohort that is shifting their spend and trading down a little bit within categories and within companies. So, the middle income is what's changing. The low income feels a little bit better in terms of sentiment. And the high income is as good as it's ever been given household net worth is at all time highs right now.

Mike Washington: US discretionary has acted great over the last month, outperforming both S&P and consumer staples. How would you describe positioning in this space right now?

Scott Feiler: Yeah, from a positioning perspective, I'd argue it's pretty interesting. Our prime brokerage data shows positioning in consumer discretionary stocks are at multi year lows. And November is the strongest month for the group on average. It's normally up 8 percent over the last five years on average and is up 4 at the last five years during that month. The group almost always climbs a well of worry around holiday spending. And given positioning is a multi year low, I definitely think it's an interesting dynamic for the group right now.

Mike Washington: Yeah, I'm glad you brought up the holiday season. I mean, what are those expectations this year? And how do they relate to previous years around holiday spending?

Scott Feiler: Yeah, uncertainty in the holiday, for sure, especially given it's an election year. However, when we look at seasonal hiring announcements from many of the retailers I cover, almost all companies are speaking to the same number of hires this year versus last year. And again, if you go back to our conference from three weeks ago, we surveyed all the corporates who attended and asked them how they felt about trends in the back half of this year versus how they were in the first half. Nearly unanimously the companies spoke to similar trends in the back half of this year versus what we saw in the first half. So, I think we're looking for a pretty steady holiday season, which I do think will climb that well of worry.

Mike Washington: We've basically spent all our time this morning talking about the US in a vacuum. But on the desk, a lot of our conversations this week have been centered around China. We got monetary policy. We just got fiscal stimulus. Are you noticing investors doing anything different on the back of that? Or are there any, call it, sub-sectors of the consumer that stand out for you?

Scott Feiler: Yeah, of course. Definitely very topical. From a flow perspective this week, I would note that on Tuesday when we got the first announcements around stimulus out of China, our prime brokerage book showed Chinese equities collectively saw their largest one-day buying since March of 2021, and the second largest buying in the last ten years. This was almost exclusively driven by long buying, not just short covering.

For the last two years, I would say, investors have shied away from owning US stock that have heavy China exposure. But we did see real long buying this week of many of the single name stocks that I follow that have that heavy China exposure. That's a first in the last couple of years. So, we definitely noticed an inflection this week.

Mike Washington: So, Scott, you talk to the biggest investors in consumer, what sub-sectors are they focused on the most?

Scott Feiler: Yeah, sure. There's a couple I would point out. First, housing or any interest rate sensitive stocks given sort of the change from the Fed. I'd say we've seen a real interest to own any of those housing exposed names, especially where the stocks are off their all-time highs. That's number one where we've seen a hunt for single name interest.

Number two is footwear and apparel stocks. These stocks have the most innovation in their product right now relative to other pockets of consumer. And we think these stocks likely have the most certainty of EPS revisions higher in the second half of the year. So, that's where we've seen buying as well.

Mike Washington: Last question, Scott. What is it next week that you're going to be looking out for?

Scott Feiler: Definitely the jobs print. Jobs is what everyone is always focused on in consumer, especially since July when we've begun to have more choppiness in that jobs data. So, we get the September monthly jobs print next month. I think it'll be fine. But that's what we're watching because, ultimately, I think that's what's going to drive consumer confidence, which is the question we started out trying to answer today.

Mike Washington: Scott, this has been great. Thanks so much for your time and insights on the consumer.

Scott Feiler: Thanks for having me, Mike.

Mike Washington: That does it for this week's episode of The Markets. I'm Mike Washington. Thank you for listening.